

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ISO-00 AGRE-00 AID-05 CIAE-00
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C O N F I D E N T I A L ADDIS ABABA 4353

E.O. 11652: GDS
TAGS: EAGR EPAP ET
SUBJ: CEREAL SITUATION IN ADDIS: ADEQUATE SUPPLIES BUT
HIGH PRICES

REF: ADDIS ABABA 3533

1. SUMMARY: OWING TO DIVERSION OF TRANSPORT TO MOVE
PEASANT MILITIA, AVAILABILITIES OF CEREALS IN ADDIS
MARKET ARE LOWER THAN THEY OTHERWISE WOULD BE.
NEVERTHELESS, THE AGRICULTURAL MARKETING CORPORATION
HAS AT LEAST 3 MONTHS' STOCKS ON HAND PLUS 45 THOUSAND
MT OF WHEAT AT ASSAB OR ABOUT TO ARRIVE THERE.
CONSEQUENTLY, WHILE PRICES ARE HIGH AND LIKELY TO GO
EVEN HIGHER, UNTIL THE NEXT HARVEST BEGINS, THERE
SHOULD BE ADEQUATE SUPPLIES TO MEET URBAN REQUIRE-
MENTS. TRANSPORTATION REMAINS THE KEY BOTTLENECK
IN CEREALS PRODUCTION, DISTRIBUTION AND MARKETING
SYSTEM WHICH, SOONER OR LATER, THE GOVERNMENT MUST
ADDRESS. END SUMMARY.

2. AFTER RATHER SEVERE DECLINES IN ARRIVALS OF
CEREALS DURING APRIL -- MAY WHILE THE PEASANT
MILITIA WAS MOVED INTO THE TATEK MEDA CAMP FOR
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TRAINING (SEE REFTTEL), CEREALS ARRIVALS RESUMED
CLOSE TO NORMAL LEVELS UNTIL LAST WEEK WHEN ONCE
AGAIN TRUCKS WERE DIVERTED TO TRANSPORT THE
PEASANT MILITIA FROM TATEK KEDA TO VARIOUS LOCA-
TIONS IN THE COUNTRY. PRESUMABLY, THIS DISRUPTION
OF TRANSPORT WILL BE TEMPORARY AND CREALS ARRIVALS
WILL ONCE AGAIN RETURN TO CLOSE TO NORMAL LEVELS

AFTER MOVEMENT OF MILITIA IS COMPLETED. DURING APRIL-MAY PERIOD PRICES INCREASED SHARPLY AND IN SPITE OF INCREASED SUPPLIES SINCE THEN, PRICES HAVE ONLY DECLINED MARGINALLY FOR SOME CEREALS AND NOT AT ALL FOR OTHERS. THE CURRENT DISRUPTION WILL PROBABLY DRIVE PRICES EVEN HIGHER AND ITS IS NOT AT ALL CERTAIN THAT THEY WILL RETURN TO LOWER LEVELS IN THE NEAR FUTURE EVEN IF SUPPLIES INCREASE. CEREALS PRICES ARE NOW 5-10 PERCENT HIGHER THAN THE HIGHEST LEVEL REACH LAST YEAR (AUGUST).

3. EMBASSY HAS OBTAINED STOCK FIGURES FROM THE AGRICULTURAL MARKETING CORPORATION (AMC) WHICH SHOW THAT AMC HOLDS OVER 70,000 TONS OF CEREALS IN AND AROUND THE ADDIS ABABA-DEBRE ZEIT-NAZARETH AREA. THIS QUANTITY OF STOCKS SHOULD ASSURE ADEQUATE CEREALS FOR URBAN AREAS FOR AT LEAST 3 MONTHS. IN ADDITION, AMC HAS OVER 20,000 TONS OF WHEAT AT ASSAB WITH ANOTHER 25,000 TONS TO ARRIVE DURING THE FIRST WEEK OF AUGUST. THERE ARE ALSO 15,000 TONS OF WHEAT AT ASSAB CONSIGNED FOR RELIEF DISTRIBUTION TO OTHER AGENCIES WHICH COULD BE USED IF REQUIRED.

4. TRANSPORTATION REMAINS THE KEY CONSTRAINT IN THE CEREALS PRODUCTION, DISTRIBUTION AND MARKETING SYSTEM.
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AS NOTED REFTTEL, THE GOVERNMENT HAS PURCHASED 100 TEN-TON TRUCKS FROM THE LOCAL FIAT ASSEMBLY PLANT, BUT THESE TRUCKS ARE ONLY PRODUCED AT THE RATE OF ONE PER DAY AND 20 HAVE BEEN SET ASIDE FOR CONVERSION INTO TANK TRUCKS. ACCORDING TO ONE SOURCE, THE GOVERNMENT RECENTLY AUTHORIZED NATIONAL TRANSPORT CORPORATION TO PURCHASE 400 MORE TEN-TON TRUCKS WITH TEN-TON TRAILERS. THE EMBASSY HAS THUS FAR BEEN UNABLE TO VERIFY THIS. HOWEVER, EVEN IF THIS REPORT TRUNS OUT TO BE TRUE, IT SHOULD BE BORNE IN MIND THAT 700-800 OF THESE TRUCKS WITH TRAILLERS ARE REQUIRED TO REPLACE THE RAILROAD AND ANOTHER 400-500 PER YEAR ARE NEEDED TO REPLACE WORN OUT TRUCKS FROM THE EXISTING FLEET. AS THE PRIVATE SECTOR STILL IS NOT BUYING TRUCKS, THE WHOLE BURDEN FALLS ON THE GOVERNMENT. THE GOVERNMENT COULD NEVERTHELESS AFFORD TO UNDERTAKE PROCUREMENT OF THIS MAGNITUDE AS ETHIOPIAN FOREIGN EXCHANGE REVENUES REMAIN VERY HIGH (WELL OVER 300 MILLION U.S.). ANOTHER ASPECT OF THE PROBLEM IS THE QUESTION OF DELIVERY TIME FOR TRUCKS PROCURED OFFSHORE. ACCORDING TO THE LOCAL FIAT REP, IT WILL TAKE AT

LEAST FIVE TO SIX MONTHS BEFORE FIAT TRUCKS COULD BE DELIVERED IF THEY WERE ORDERED NOW. THE ONLY POSSIBLE SUPPLIER, IN HIS VIEW, WHO MIGHT BE ABLE TO PROVIDE EARLIER DELIVERY WOULD BE JAPANESE COMPANIES. MORE ALSO NEEDS TO BE DONE TO PROVIDE SPARE PARTS FOR TRUCK REPAIR. SINCE THE CLOSURE OF THE RAILROAD THE SPARE PARTS SITUATION IN ADDIS HAS BECOME INCREASINGLY CRITICAL WITH MANY IMPORT HOUSES CONTEMPLATING AIR FREIGHT OF ESSENTIAL SPARES.

5. COMMENT: GIVEN STOCKS ON HAND, EMBASSY BELIEVES ADDIS WILL NOT FACE SHORTAGE OF CEREALS, ALTHOUGH PRICES WILL PROBABLY REACH NEW HIGHS. EVEN SO, ADDIS POPULATION IS NOW IN A BETTER POSITION TO
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COPE WITH THESE INCREASES OWING TO CONSIDERABLE INCREASE IN WAGES AND SALARIES FOR THE POOREST CLASSES SINCE THE REVOLUTION STARTED (SEE ADDIS A-76). THERE ALREADY IS GRUMBLING, ESPECIALLY ABOUT SHORTAGE OF AND HIGH PRICES FOR TEFF, BUT IT IS UNLIKELY THAT DISCONTENT WILL REACH MAJOR PROPORTIONS. THE BIGGEST MYSTERY IS WHY THE GOVERNMENT HAS REFUSED FOR SO LONG TO BUY MORE TRUCKS. EVERYONE AGREES THAT THE BASIC BOTTLENECK IN THE CEREALS SYSTEM IS NOT SUPPLY BUT TRANSPORTATION AND ETHIOPIA CERTAINLY HAS ENOUGH FOREIGN EXCHANGE TO COVER THE REQUIRED INVESTMENT. PERHAPS THE GOVERNMENT IS FINALLY TAKING ACTION ON THIS MATTER.
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